Kimlun Corporation

Building Back Stronger

By Teh Kian Yeong I tehky@kenanga.com.my

KIMLUN is poised for stronger earnings ahead, underpinned by robust job prospects and recovering profit margins. Its outstanding order book stands at a record RM3.27b, with gross margins trending back to pre-Covid levels. The company has guided RM1.5b–RM2.0b new construction job wins in FY25 (vs. our RM1.2b assumption), which should sustain a high order book and earnings visibility. However, we trim FY25–FY26 earnings by 22–29% as we had previously expected strong 1QFY25 performance in the property segment to be repeatable. We maintain OUTPERFORM with a higher TP of RM1.51 (RM1.37 ex-placement), primarily on applying a higher construction earnings multiple considering the above momentum in construction.

Record order book in hand. Since 1QFY24, KIMLUN has been registering record-high outstanding order book (construction and manufacturing combined), rising from RM2.63b in 1QFY24 to RM3.48b in 2QFY24 and sustaining above RM3.0b since then (see charts on Page 2). In FY24, it secured RM2.17b worth of new construction jobs, with major contracts including: 1) RM234m high-rise residential project in Shah Alam, 2) RM150m serviced residence in Johor Bahru, 3) RM134m building contract from **SUNWAY (UP; TP: RM4.01)** in Johor Bahru, and 4) RM129m Senai-Desaru Expressway upgrade in Johor.

Public project pipeline. KIMLUN has built a strong foothold in Johor and Sarawak, and its manufacturing arm is well-positioned to benefit from upcoming rail expansions in Singapore, given its past precast concrete supply for the island's rail projects. It is eyeing packages from the Pan Borneo Sarawak Phase 2, road upgrades in Johor, and affordable housing developments, as highlighted in the 13th Malaysia Plan. It has also tendered RM4b worth of jobs and guided for RM1.5b−RM2.0b of new wins in FY25, supporting continued replenishment momentum, although our job win assumption is RM1.2b or a 30% win rate.

Margin recovery underway. Like other construction companies, KIMLUN's margins were hit post-Covid by project delays and cost escalations. Pre-pandemic, it delivered >8% construction gross margin (FY15–FY19), but this slipped to as low as 1.2% in FY22 before recovering to 6.3% in FY24. The rebound was driven by stabilised input costs and newer projects with cost pass-through clauses, while older low-margin projects are being completed. Gross margin has steadily improved from a trough of -2.9% in 3QFY21 to 7.7% in 1QFY25 (see charts on Page 2).

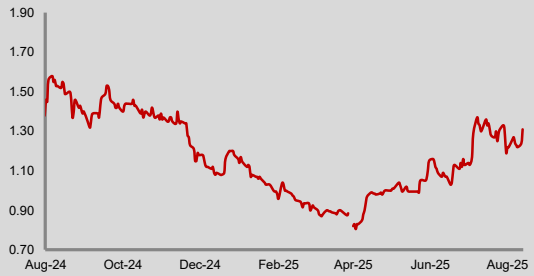
10% private placement to fund property projects. Currently, KIMLUN is developing three serviced apartment projects in Johor Bahru − Pinegate Residency Phase 1 (Pinegate P1; GDV RM320m), 45%-owned Arden Residence (GDV RM800m), and Pinegate Residency Phase 2 (Pinegate P2; GDV RM330m). With outstanding gross development costs of RM920m and net gearing peaking at 0.79x in FY24, it has proposed (on 4 Aug) a 10% private placement to raise c.RM40.6m with RM30.0m earmarked for property working capital (see tables on Page 3). Completion is expected next month. We estimate net gearing will ease to 0.70x in FY25F and 0.65x in FY26F.

1QFY25 results strong but unsustainable. KIMLUN posted core profit of RM25.2m in 1QFY25 (+60% QoQ; vs. RM0.5m in 1QFY24), lifted by property development earnings from Pinegate P1. From the private placement announcement, we learned that Pinegate P1 was launched this Jan despite having commenced construction earlier in

OUTPERFORM ↔

Price:	**RM1.31**
Target Price:	**RM1.51** ↑

Share Price Performance



KLCI	1,590.24
YTD KLCI chg	-3.2%
YTD stock price chg	9.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KICB MK EQUITY
Market Cap (RM m)	462.9
Shares Outstanding	353.4
52-week range (H)	1.59
52-week range (L)	0.81
3-mth avg. daily vol.	594,621
Free Float	27%
Beta	1.3

Major Shareholders

Phin Sdn Bhd	37.2%
Pang Khang Hau	6.0%
Pang Yon Tin	5.5%

Summary Earnings Table

FY Jul (RM m)	2024A	2025F	2026F
Turnover	1207.4	1412.1	1550.9
EBIT	41.3	95.2	99.0
PBT	67.5	83.8	90.9
Net Profit	**50.3**	**64.3**	**69.7**
Core Net Profit	**49.8**	**64.3**	**69.7**
Consensus		63.3	73.1
Earnings Revision (%)		-21.7	-28.6
Core EPS (sen)	14.1	18.2	19.7
Core EPS Growth (%)	709.3	29.1	8.4
NDPS (sen)	2.0	2.0	2.0
BVPS (RM)	2.16	2.43	2.61
NTA/share (RM)	2.16	2.43	2.61
PER (x)	8.5	7.2	6.6
PBV (x)	0.56	0.54	0.50
P/NTA (x)	0.56	0.54	0.50
Net Gearing (x)	0.79	0.70	0.65
Net Div. Yield (%)	1.7	1.5	1.5

Feb 2023, which helped to explain lumpy revenue recognition of RM105.2m revenue and RM29.2m gross profit in 1QFY25. However, similar contributions are unlikely to recur as Pinegate P2 (launched Oct 2025; construction started May 2025) and Arden (launched Mar 2025; construction started May 2025) are still in early stages. At a 60% take-up assumption, property earnings should normalise in the coming quarters.

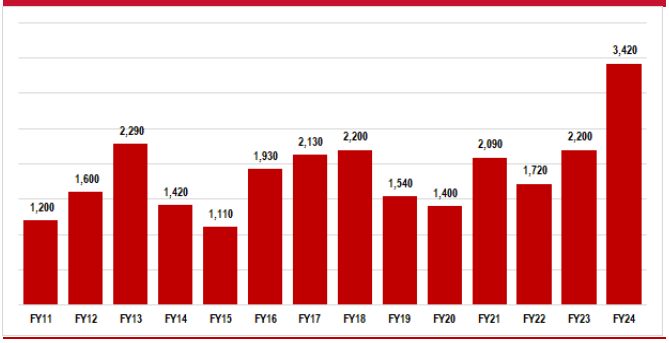
Forecasts. We revise down property revenue and gross profit assumptions to RM192.0m/RM38.4m in FY25 and RM19.8m/RM4.0m in FY26 (from RM300.0m/RM75.0m annually). For construction, we raise our replenishment assumption to RM1.2b per year in FY25–26 (vs. RM1.0b previously, though below company guidance of RM1.5b–RM2.0b) and widen gross margin to 6.5–8.0% (from 6.0–6.5%). Consequently, FY25–26 earnings are cut by 22–29% to RM64.3m–RM73.1m (from RM82.1m–RM97.6m). NDPS forecast of 2.0 sen per year is maintained. Our forecasts take into consideration of the 10% share placement.

Valuations. Despite the earnings cut, we upgrade our SoP-derived valuation to RM1.51 (or RM1.38, adjusted for the 10% new placement share) from RM1.39 previously. This reflects: 1) a higher 12x FY26 PER applied to upgraded construction earnings; and 2) increased property valuation of RM0.10 (from RM0.05), incorporating Pinegate P1 & P2, while maintaining a 40% discount to RNAV. The PER uplift to 12x (from 10x) is justified by stronger earnings momentum and improved job prospects. No ESG adjustment is applied, based on a 3-star rating (see Page 3).

Investment case. We like KIMLUN as: (i) it is a beneficiary of the roll-out of public infrastructure projects, (ii) it capitalises on the stable public infrastructure sector in Singapore with its precast concrete products manufactured in Johor, and (iii) its strong earnings visibility is backed by a construction outstanding order book of RM2.95b which will keep it busy for the next 2−3 years. Maintain **OUTPERFORM**.

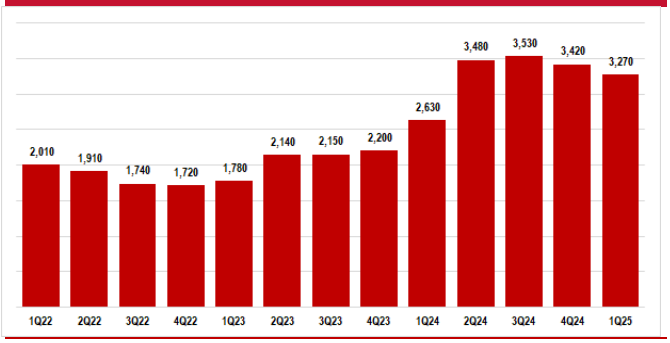
Risks to our call include: (i) delays in the roll-out of public infrastructure projects, (ii) liquidated ascertained damages (LAD) arising from cost overrun and delays, (iii) rising cost of building materials; and (iv) labour shortages.

Construction Outstanding Order Book (Yearly)



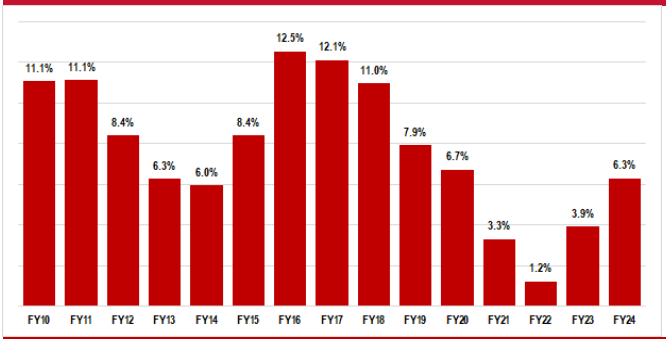
Source: Company

Construction Outstanding Order Book (Quarterly)



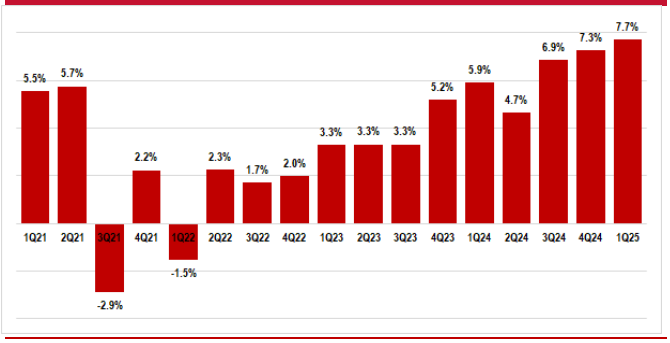
Source: Company

Construction Gross Margin (Yearly)



Source: Company

Construction Margin (Quarterly)



Source: Company

Details of Utilization (10% New Placement Share)

Description	RM'000	Expected Timeframe for Use from the Date of Listing of the Placement Shares
Working capital requirements	40,017	Within 12 months
Estimated expenses in relation to the proposed private placement	800	Within 1 month
	40,637	

Source: Company

Working Capital Requirements

Description	RM'000
Property development expenditure for the Group's property development projects which include payment to contractors and supplier, consultants and professional fees, and payment to the relevant authorities	30,000
Staff costs which include salaries, allowances and defined employer's contribution	7,000
Marketing and general operating expenses which include diesel, utilities and other office expenses	3,017

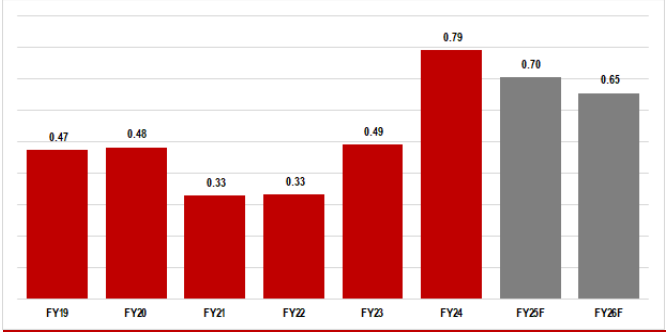
Source: Company

Property Development Project

Name of Project	Description of Project	GDV (RM m)	Estimated Outstanding Gross Development Cost (RM m)
Pinegate P1	896 serviced apartment units in JB	320	60
Arden	618 serviced apartment units and 4 commercial lots in JB	800	630
Pinegate P2	896 serviced apartment units in JB	330	230

Source: Company

KIMLUN: Net Gearing (x)



Source: Company/Kenanga Research

KIMLUM's Sum-of-Parts Valuation

Segment	Value (RM m)	RM	Valuation Basis
Construction	597.1	1.69	12x CY26F PER
Property	34.2	0.10	40% discount to RNAV
Net Debt	-98.0	-0.28	Estimated FY26F
	533.2	1.51	
Issued share (m)	353.4		
Target Price	**RM1.51**		
Enlarged issued share (m)	388.7		
Ex-placement Target Price	**RM1.37**		

Source: Kenanga Research

Income Statement

FY Dec (RM m)	2022A	2023A	2024A	2025F	2026F
Revenue	756	853	1207	1412	1551
EBITDA	41	47	73	137	142
Depreciation	-37	-25	-32	-42	-43
EBIT	4	23	41	95	99
Other Income	8	8	51	11	12
Interest Expense	-13	-16	-25	-24	-24
Associate & JV	0	0	0	2	3
Exceptional	0	0	0	0	0
PBT	-4	13	67	84	91
Taxation	-4	-6	-18	-20	-22
Minority Interest	0	0	0	1	1
Net Profit	-7	7	50	64	70
Core Net Profit	36	6	50	64	70

Balance Sheet

FY Dec (RM m)	2022A	2023A	2024A	2025F	2026F
Fixed Assets	131	160	269	277	284
Intangibles	0	0	0	0	0
Other FA	186	349	383	402	410
Inventories	67	60	79	70	77
Receivables	418	410	542	566	620
Other CA	426	492	724	760	775
Cash	72	63	70	109	90
Total Assets	1301	1533	2066	2185	2258
Payables	231	337	508	502	548
ST Borrowings	152	217	423	381	343
Other ST Liability	34	33	67	70	71
LT Borrowings	156	196	248	311	311
Other LT Liability	3	9	32	33	34
Minority Int.	15	27	26	28	28
Net Assets	**710**	**714**	**762**	**860**	**922**
Share Capital	256	256	256	297	297
Reserves	454	458	506	563	626
Equity	**710**	**714**	**762**	**860**	**922**

Cashflow Statement

FY Dec (RM m)	2022A	2023A	2024A	2025F	2026F
Operating CF	49	103	19	36	76
Investing CF	-29	-202	-195	-50	-50
Financing CF	-17	86	182	54	-45
Change In Cash	2	-13	6	39	-19
Free CF	19	-98	-175	-14	26

Financial Data & Ratios

FY Dec	2022A	2023A	2024A	2025F	2026F
Growth (%)					
Revenue	9.4	12.8	41.6	17.0	9.8
EBITDA	-19.8	17.0	54.0	87.3	3.6
Operating Income	-54.3	498.5	81.6	130.3	4.0
Pre-tax Income	-480.9	-452.9	416.8	24.2	8.4
Net Income	->100.0	-197.6	613.2	27.9	8.4
Core Net Income	>100.0	-83.0	709.3	29.1	8.4
Profitability (%)					
EBITDA Margin	5.4	5.6	6.0	9.7	9.1
Operating Margin	0.5	2.7	3.4	6.7	6.4
PBT Margin	-0.5	1.5	5.6	5.9	5.9
Net Margin	-1.0	0.8	4.2	4.6	4.5
Core Net Margin	4.8	0.7	4.1	4.6	4.5
Effective Tax Rate	-97.1	47.3	26.1	24.0	24.0
ROE	2.8	0.4	2.8	4.2	4.2
ROA	-1.0	1.0	6.8	7.9	7.8
DuPont Analysis					
Net margin (%)	4.8	0.7	4.1	4.6	4.5
Assets Turnover (x)	0.6	0.6	0.6	0.6	0.7
Leverage Factor (x)	1.8	2.1	2.7	2.5	2.4
ROE (%)	5.1	0.9	6.5	7.5	7.6
Leverage					
Debt/Asset (x)	0.24	0.27	0.33	0.32	0.29
Debt/Equity (x)	0.43	0.58	0.88	0.80	0.71
Net Debt/(Cash)	-235	-350	-602	-604	-603
Net Debt/Equity (x)	0.33	0.49	0.79	0.70	0.65
Valuations					
Core EPS (sen)	10.3	1.7	14.1	18.2	19.7
NDPS (sen)	1.0	1.0	2.0	2.0	2.0
BV/share (RM)	2.01	2.02	2.16	2.43	2.61
NTA/share (RM)	2.01	2.02	2.16	2.43	2.61
Core PER (x)	7.5	44.8	8.5	7.2	6.6
Net Div. Yield (%)	1.3	1.3	1.7	1.5	1.5
PBV (x)	0.38	0.39	0.56	0.54	0.50
P/NTA (x)	0.38	0.39	0.56	0.54	0.50
EV/EBITDA (x)	12.5	13.2	14.0	7.8	7.5

Source: Kenanga Research

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
GAMUDA	OP	5.70	6.10	7.0%	33,039.3	Y	07/2025	17.6	24.4	8.9%	38.7%	32.4	23.3	2.8	8.7%	10.0	1.8%
IJM	OP	2.95	3.40	15.3%	10,340.2	Y	03/2026	15.6	16.2	20.9%	4.0%	18.9	18.2	1.0	5.5%	8.0	2.7%
KERJAYA	OP	2.15	2.30	7.0%	2,703.3	Y	12/2025	16.7	18.1	29.8%	8.0%	12.9	11.9	2.2	17.8%	12.0	5.6%
KIMLUN	OP	1.31	1.53	16.8%	462.9	Y	12/2025	18.2	19.7	29.1%	8.4%	7.2	6.6	0.5	7.9%	2.0	1.5%
SUNCON	MP	5.76	5.66	-1.7%	7,557.3	Y	12/2025	22.8	25.7	81.6%	12.8%	25.3	22.4	7.2	30.7%	12.5	2.2%
WCT	OP	0.870	1.25	43.7%	1,356.2	Y	12/2025	5.0	5.6	67.4%	12.7%	17.4	15.5	0.4	2.1%	0.5	0.6%
SECTOR AGGREGATE					**55,459.3**					**28.4%**	**21.6%**	**25.2**	**20.7**	**2.0**	**7.7%**		**2.4%**

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
SPECIFIC	Migrant Worker Welfare	★	★	☆		
	Waste Disposal/Pollution Control	★	★	☆		
	Work Site Safety	★	★	★		
	Environmentally Friendly Construction Technology	★	★	★		
	Supply Chain Auditing	★	★			
	Energy Efficiency	★	★			
	OVERALL	★	★	★	★	

☆ denotes half-star
★ -10% discount to TP
★★ -5% discount to TP
★★★ TP unchanged
★★★★ +5% premium to TP
★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my